

ISABELLA COUNTY ROAD COMMISSION

BASIC FINANCIAL STATEMENTS

For the Year Ended September 30, 2004

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name ISABELLA COUNTY ROAD COMMISSION	County ISABELLA
Audit Date SEPTEMBER 30, 2004	Opinion Date DECEMBER 1, 2004	Date Accountant Report Submitted to State: JANUARY 21, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) ANDERSON, TACKMAN & Co. PLLC			
Street Address 16978 S. RILEY AVE.	City KINCHELOE	State MI	ZIP 49752
Accountant Signature [Signature]			

ISABELLA COUNTY

BOARD OF COUNTY ROAD COMMISSIONERS

James R. McDonald
Vice - Chairman

Donald P. Cotter
Chairman

Robert Curtiss
Member

James F. Miller
Manager

Deborah A. Buesking
Financial Director/Clerk

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners
Isabella County Road Commission
2261 E. Remus Road
Mt. Pleasant, Michigan 48858-9002

We have audited the accompanying financial statements of the governmental activities and the major fund of the Isabella County Road Commission (a component unit of the County of Isabella, Michigan) as of and for the year ended September 30, 2004, as listed in the Table of Contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

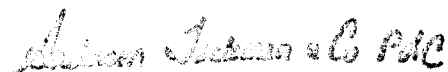
We conducted our audit in accordance with auditing standards generally accepted in the United States of America, provisions of Public Act 71 of 1919, section 21.41 of the Michigan Compiled Laws, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Isabella County Road Commission as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2004, on our consideration of the Isabella County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on page 3 and budgetary comparisons as listed in the table of contents are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Isabella County Road Commission's basic financial statements. The schedules listed as supplementary are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

December 1, 2004

Management's Discussion and Analysis

Using This Annual Report

The Isabella County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

Reporting the Road Commission as a Whole

The statement of net assets and the statement of activities report information about the road commission as a whole and about its activities in a way that helps answer the question of whether the road commission as a whole is better off or worse off as of a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the road commission's net assets and the changes in them. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Reporting the Road Commission's Major Fund

Our analysis of the road commission's major fund begins on page 11. The fund financial statements begin on page 27 and provide detailed information about the major fund. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The road commission's net assets increased approximately 7.06% from \$51 million to \$55 million for the year ended September 30, 2004. The net assets and change in net assets are summarized below.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements increased. Restricted net assets, those restricted mainly for Act 51 purposes increased. The primary reason for the increases was due to increases in federal support for road projects. Declining interest rates and gasoline tax revenue also negatively impacted net assets.

Net assets as of the years ended September 30, 2003 and 2004 is as follows:

	Governmental Activities <u>2003</u>	Governmental Activities <u>2004</u>
Current and Other Assets	\$ 1,949,365	\$ 2,627,452
Capital Assets	<u>51,482,943</u>	<u>55,242,005</u>
Total Assets	<u>53,432,308</u>	<u>57,869,457</u>
Current Liabilities	990,687	1,972,033
Other Liabilities	<u>1,148,501</u>	<u>980,390</u>
Total Liabilities	<u>2,139,188</u>	<u>2,952,423</u>
Net Assets		
Invested in Capital Assets	50,362,318	54,296,382
Unrestricted	<u>930,802</u>	<u>620,652</u>
Total Net Assets	<u>\$ 51,293,120</u>	<u>\$ 54,917,034</u>

Isabella County Road Commission

Management's Discussion and Analysis September 30, 2004

A summary of changes in net assets for the years ended September 30, 2003 and 2004 is as follows:

	<u>Governmental Activities 2003</u>	<u>Governmental Activities 2004</u>
Program Revenues		
Charges for Services	\$ 390,715	\$ 650,084
Operating Grants and Contributions	8,498,309	8,933,271
Other	51,960	160,279
General Revenues		
Interest Income	17,460	13,231
Gain (Loss) on Disposal of Equipment	48,722	(16,741)
Appropriations	<u>223,748</u>	<u>110,000</u>
Total Revenues	<u>9,230,914</u>	<u>9,850,124</u>
Program Expenses		
Primary Roads		
Maintenance	2,432,819	2,670,640
Local Roads		
Maintenance	2,916,542	3,130,203
Interest Expense	51,861	47,850
Compensated Absences	16,186	6,889
Equipment Expenses	112,135	(91,875)
Administrative	<u>495,439</u>	<u>462,503</u>
Total Expenses	<u>6,024,982</u>	<u>6,226,210</u>
Increase in Net Assets	<u>\$ 3,205,932</u>	<u>\$ 3,623,914</u>

The Road Commission's Fund

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended September 30, 2004, the fund balance of the general operations fund decreased \$303,260 as compared to a decrease of \$245,138 in the fund balance for the year ended September 30, 2003. Total revenues were \$9,740,124, an increase of \$732,958 as compared to last year. This change in revenues resulted primarily from an increase in federal funds due to larger federal projects.

Total expenditures were \$10,153,384, an increase of \$677,332 as compared to last year. This change in expenditures is primarily the increase in local road projects in the current year.

Budgetary Highlights

Prior to the beginning of any year, the road commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the road commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The revenue budget for 2004 was higher than the actual receipts by \$482,911. This was due, in a large part, to the projection of federal, state and local road participations. The road commission budgets for the receipt of funds for projects on primary and local roads. This year, the revenue from township contributions was lower than projected in the amount of \$236,933.

Road Commission expenditures were projected at \$10,772,212 while actual expenditures were \$10,153,384. This resulted in total expenditures under budget by \$618,828. There were two items that account for most of the variance in the projection of the budget. The largest share of the variance is in the area of local and primary road heavy maintenance. Our engineering and maintenance departments projected that work in these two areas would be completed; however, weather and other factors combined to limit the amount of work that could be completed prior to year-end.

Isabella County Road Commission

Management's Discussion and Analysis
September 30, 2004

Capital Asset and Debt Administration

Capital Assets

The road commission had the following amounts invested in capital assets as follows:

	<u>2003</u>	<u>2004</u>
Capital Assets Not Being Depreciated		
Land and Improvements	<u>\$ 16,998,049</u>	<u>\$ 18,187,936</u>
Other Capital Assets		
Buildings and Improvements	609,169	648,130
Road Equipment	5,663,529	5,859,930
Other Equipment	516,353	538,988
Infrastructure and Improvements	<u>55,652,389</u>	<u>60,730,437</u>
Total Capital Assets at Historic Cost	<u>62,441,440</u>	<u>67,777,485</u>
Total Accumulated Depreciation	<u>(27,956,546)</u>	<u>(30,723,416)</u>
Total Net Capital Assets	<u>\$ 51,482,943</u>	<u>\$ 55,242,005</u>

Current year's major additions included the following:

Reconstruction of Bridges	<u>\$ 1,090,075</u>
Various Resurfacing Projects	<u>\$ 5,042,864</u>
Trucks/Equipment	<u>\$ 568,530</u>
Buildings	<u>\$ 39,035</u>

Debt

The road commission has limited debt obligations. Bonds issued in prior years have been paid currently. The road commission has long-term debt in the amount of \$1,155,390 which represents compensated absences and bonds payable.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when adopting the fiscal year 2005 budget. One of the factors is the economy. The road commission derives approximately 60% of its revenues from the fuel tax collected. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed.

The board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Isabella County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Isabella County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Isabella County Road Commission administrative offices at 2261 E. Remus Road, Mt. Pleasant, Michigan 48858.

Basic Financial Statements

Isabella County Road Commission

Statement of Net Assets September 30, 2004

ASSETS

Current Assets:

Cash and Equivalents	\$ 1,125,570
Accounts Receivable:	
Michigan Transportation Fund	917,240
Due from other Units	131,243
Due on County Road Agreements	155,321
Sundry Accounts	8,680
Land Contract	19,052
Inventories:	
Road Materials	28,269
Equipment, Parts and Materials	153,087
Prepaid Expenses	<u>88,990</u>

Total Current Assets 2,627,152

Noncurrent Assets:

Capital Assets (Net of Accumulated Depreciation)	<u>55,242,005</u>
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Total Assets \$ 57,869,457

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 523,265
Due to State of Michigan	249,565
Accrued Liabilities	62,690
Advances	904,290
Escrow	36,600
Interest Payable	20,623
Bonds Payable	175,000

Noncurrent Liabilities:

Bonds Payable	750,000
Vested Employee Benefits	<u>230,390</u>

Total Liabilities 2,952,423

NET ASSETS

Investment in Capital Assets	
Net of Related Debt	\$ 54,296,382
Restricted for County Road	<u>620,652</u>
Total Net Assets	<u>\$ 54,917,034</u>

The Notes to Financial Statements are an integral part of this statement.

Isabella County Road Commission

Statement of Activities For the Year Ended September 30, 2004

Program Expenses:	
Primary Road Maintenance	\$ 2,670,640
Local Road Maintenance	3,130,203
Net Equipment Expense	(91,875)
Net Administrative Expense	456,564
Compensated Absences	6,889
Interest Expense	47,850
Other	<u>5,939</u>
Total Program Expenses	<u>6,226,210</u>
Program Revenues:	
License and Permits	7,150
Federal Grants	2,082,484
State Grants	5,657,364
Contributions from Local Units	1,193,423
Charges for Services	642,934
Reimbursements	4,899
Interest Earnings	<u>13,231</u>
Total Program Revenues	<u>9,601,485</u>
Net Program Revenues	<u>3,375,275</u>
General Revenue	
Other	155,380
Loss on Equipment Disposal	(16,741)
Transfers In – Primary Government	<u>110,000</u>
Total General Revenues and Transfers In	<u>248,639</u>
Change in Net Assets	3,623,914
Net Assets:	
Beginning of Year	<u>51,293,120</u>
End of Year	<u>\$ 54,917,034</u>

The Notes to Financial Statements are an integral part of this statement.

Isabella County Road Commission

Balance Sheet
September 30, 2004

Governmental
Fund Type
General
Operating Fund

ASSETS

Cash and Equivalents	
Accounts Receivable:	\$ 1,125,570
Michigan Transportation Fund	
Land Contract	917,240
Other Governmental Units	19,052
Due on County Road Agreements	131,243
Sundry Accounts	155,321
Inventories:	8,680
Road Materials	
Equipment, Parts, and Materials	28,269
Prepaid Expenses	153,087
	<u>88,990</u>
Total Assets	\$ <u>2,627,452</u>

LIABILITIES AND FUND EQUITY

Liabilities:	
Accounts Payable	\$ 523,265
Accrued Liabilities	62,690
Due to State of Michigan	249,565
Advances	904,290
Escrow	<u>36,600</u>
Total Liabilities	<u>1,776,410</u>
Fund Equities	
Fund Balance	
Unreserved and Undesignated	<u>851,042</u>
Total Fund Equities	<u>851,042</u>
Total Liabilities and Fund Equities	\$ <u>2,627,452</u>

The Notes to Financial Statements are an integral part of this statement.

Isabella County Road Commission

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets For the Year Ended September 30, 2004

Total Governmental Fund Balance	\$ 851,042
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	55,242,005
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Interest accrued, but not due until the following year.	(20,623)
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Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	<u>(1,155,390)</u>
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Net Assets of Governmental Activities	<u>\$ 54,917,034</u>
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The Notes to Financial Statements are an integral part of this statement.

Isabella County Road Commission

Statement of Revenues, Expenditures and Changes in Fund Balance For the Year Ended September 30, 2004

	General Operating Fund
Revenues:	
License and Permits	\$ 7,150
Federal Sources	2,082,484
State Sources	5,657,364
Contributions from Local Units	1,193,423
Charges for Services	12,485
Interest and Rents	13,231
Other Revenue	<u>773,987</u>
Total Revenues	<u>9,740,124</u>
Expenditures	
Public Works	9,758,634
Capital Outlay	171,900
Debt Service	<u>222,850</u>
Total Expenditures	<u>10,153,384</u>
Excess of Revenues Over (Under) Expenditures	<u>(413,260)</u>
Other Financing Sources	
Transfers In – Primary Government	<u>110,000</u>
Total Other Financing Sources	<u>110,000</u>
Excess (Deficit) of Revenues and Other Financing Sources Over (Under) Expenditures	(303,260)
Fund Balance – October 1, 2003	<u>1,154,302</u>
Fund Balance – September 30, 2004	<u>\$ 851,042</u>

The Notes to Financial Statements are an integral part of this statement.

Isabella County Road Commission

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2004

Net Change in Fund Balance – Total Governmental Funds \$ (303,260)

Amounts reported for governmental activities in the statements are different because:

Governmental funds report capital outlays and infrastructure costs as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 3,795,287

Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities. (36,224)

Repayment of notes/bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets. 175,000

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the Governmental funds. (6,889)

Change in Net Assets of Governmental Activities \$ 3,623,914

The Notes to Financial Statements are an integral part of this statement.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Isabella County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Isabella County Road Commission.

Effective October 1, 2002, the Road Commission implemented the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Road Commission's overall financial position and results of operations has been included with the financial statements.
- Financial statements prepared use full accrual accounting for all of the Road Commission's activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements).

A. Reporting Entity

The Isabella County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member Board of County Road Commissioners which is elected biennially for a full term of six years. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Isabella County Road Commission, a discretely presented component unit of Isabella County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Isabella County Road Commission. There is only one major fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement, Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

D. Assets, Liabilities, and Net Assets or Equity

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. All deposits are recorded at cost.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Isabella County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Isabella County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure assets in the statement of net assets.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment & Vehicles	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

Compensated Absences (Vacation and Sick Leave)

The maximum accumulation of vacation hours according to the union agreement is 200 hours. An excess of the maximum is lost on the anniversary date of hire. Employees accrue hours monthly. Each regular full-time employee is provided with 8 hours per month of sick leave benefit. Each employee receives payment for leave not used upon retirement or death up to 240 hours.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Road Commission's Chief Administrative Officer (manager) and Financial Director prepare and submit a proposed operating budget to the Board of Road Commissioners for its review and consideration. The Board conducts a public budget hearing and subsequently adopts an operating budget. The Board has authorized the Chief Administrative Officer to amend the Road Commission budget when necessary, without increasing the overall budget, by transferring up to 25 percent from one line item to another. The operating fund budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements. All budgeted appropriations lapse at year end.

Budget Violations

Public Act 621 of 1978, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Expenditures that exceeded appropriations by material amounts are as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Local Road Maintenance	\$ 2,404,800	\$ 2,578,190	\$ 173,390
Capital Outlay	144,118	171,900	27,782

NOTE 3 - CASH AND DEPOSITS

The cash and investments are classified by GASB Statement No. 3 in the following categories:

Petty Cash	\$ 150
Imprest Cash	1,000
Bank Deposits (Checking Accounts, Savings Accounts, and Certificates of Deposit)	<u>1,124,420</u>
Total Cash	<u>\$ 1,125,570</u>

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the state of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

The risk disclosures for the Road Commission deposits, as required by the Governmental Accounting Standards Board (GASB) Statement No. 3, are as follows:

	<u>Carrying Amount</u>	<u>Financial Institution Balance</u>
Bank Deposits (Checking)	<u>\$ 1,000</u>	<u>\$ 187,855</u>

The Road Commission's insured deposit amount results from the County Road Fund meeting certain specified criteria under FDIC regulations.

The risk disclosures for the Road Commission deposits (in regards to the savings accounts), as required by GASB Statement No. 3, are not available in that the Road Commission's cash deposits are part of the County's common bank account. The Road Commission would receive its proportional share of insurance coverage. However, given the amount of the Road Commission's funds relative to the common bank account total, we estimate that \$100,000 of the Road Commission's fund to be substantially insured.

Isabella County Road Commission

Notes to Financial Statements
For the Year Ended September 30, 2004

NOTE 4 - DEFERRED COMPENSATION PLAN

The Isabella County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Isabella County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Isabella County Road Commission's financial statements.

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Isabella County Road Commission for the current year was as follows:

	Beginning Balances 10/01/03	Additions	Adjustments/ Deductions	Ending Balances 09/30/04
Capital Assets Not Being Depreciated				
Land	\$ 115,700	\$ 110,182	\$ -	\$ 225,882
Land Improvements	93,045	24,814	-	117,859
Land Improvement – Infrastructure	16,789,304	1,054,891	-	17,844,195
Subtotal	16,998,049	1,189,887	-	18,187,936
Capital Assets Being Depreciated				
Buildings	609,169	39,035	74	648,130
Road Equipment	5,663,529	538,389	341,988	5,859,930
Shop Equipment	120,393	4,610	1,735	123,268
Office Equipment	125,643	3,803	3,231	126,215
Engineers' Equipment	101,889	1,010	2,540	100,359
Yard and Storage	168,428	20,718	-	189,146
Infrastructure – Bridges	12,129,856	1,090,075	-	13,219,931
Infrastructure – Roads	43,522,533	3,987,973	-	47,510,506
Subtotal	62,441,440	5,685,613	349,568	67,777,485

Isabella County Road Commission

Notes to Financial Statements For the Year Ended September 30, 2004

NOTE 5 - CAPITAL ASSETS (Continued)

	Beginning Balances 10/01/03	Additions	Adjustments/ Deductions	Ending Balances 09/30/04
Less Accumulated Depreciation				
Buildings	356,301	17,323	-	373,624
Road Equipment	4,459,635	477,014	309,138	4,627,511
Shop Equipment	73,176	10,381	742	82,815
Office Equipment	56,619	9,032	1,723	63,928
Engineers' Equipment	74,582	9,419	1,667	82,334
Yard and Storage	93,061	11,267	-	104,328
Infrastructure – Bridges	3,639,588	441,843	-	4,081,431
Infrastructure – Roads	19,203,584	2,103,861	-	21,307,445
Subtotal	27,956,546	3,080,140	313,270	30,723,416
Net Capital Assets Being Depreciated	34,484,894	2,605,473	36,298	37,054,069
Total Net Capital Assets	\$ 51,482,943	\$ 3,795,360	\$ 36,298	\$ 55,242,005

Depreciation expense was charged to operations of the Isabella County Road Commission as follows:

Primary Road Maintenance	\$ 1,375,781
Local Road Maintenance	1,169,923
Equipment	477,014
Administrative	57,422
Total Depreciation Expense	\$ 3,080,140

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Isabella County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Isabella County Road Commission. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: 447 North Canal Street, Lansing, Michigan.

Funding Policy – The obligation to contribute and maintain the system for these employees was established by negotiation with the Isabella County Road Commission's competitive bargaining units and requires a contribution from the employees of 2 percent of the first \$4,200 wages and then 5% of remaining earnings.

Annual Pension Costs – For fiscal year ended 2004, the Isabella County Road Commission's annual pension cost of \$37,808 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as December 31, 2002, using the age normal cost method. Significant actuarial assumptions used include: (i) a 8% investment rate of return; (ii) projected salary increases of 4.5 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31, 2003 is as follows:

	2001	2002	2003
Actuarial Value of Assets	\$ 6,774,654	\$ 6,778,847	\$ 7,022,452
Actuarial Accrued Liability	5,984,708	6,474,955	7,177,695
Unfunded AAL	(789,946)	(303,892)	155,243
Funded Ratio	113%	105%	98%
Covered Payroll	1,572,031	1,642,520	1,649,747
UAAL as a Percentage of Covered Payroll	0%	0%	9%

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)

Defined Contribution Pension Plan

The Isabella County Road Commission provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by agreement, the County Road Commission contributes 0 percent of employees' gross earnings and employee contributions for each employee (plus interest allocated to the employee's account) are fully vested.

The Isabella County Road Commission's total payroll during the current year was \$1,846,508. The current year contribution was calculated based on covered payroll of \$1,749,447, resulting in an employer contribution of \$37,808 and employee contributions of \$83,357.

NOTE 7 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended September 30, 2004, the federal aid received and expended by the Road Commission was \$1,766,085 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Local force account projects are projects where the road commissions perform the work and would be subject to single audit requirements if they expended \$500,000 or more.

NOTE 8 - LONG-TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

Changes in Long-Term Debt

	<u>10/01/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>09/30/04</u>
MTF Bonds Payable	\$ 1,100,000	\$ -	\$ 175,000	\$ 925,000
Compensated absences (1)	<u>223,501</u>	<u>6,889</u>	<u>-</u>	<u>230,390</u>
Total	<u>\$ 1,323,501</u>	<u>\$ 6,889</u>	<u>\$ 175,000</u>	<u>\$ 1,155,390</u>

Isabella County Road Commission

Notes to Financial Statements
For the Year Ended September 30, 2004

NOTE 8 - LONG-TERM DEBT (Continued)

(1) The change in compensated absences is shown as a net addition.

	<u>10/01/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>09/30/04</u>
BONDS PAYABLE:				
\$1,725,000 General Obligation Bonds Payable of Isabella County over 10 years including sliding scale interest rate of 4.70% maturing in 2009.	<u>\$1,100,000</u>	<u>\$ -</u>	<u>\$ 175,000</u>	<u>\$ 925,000</u>

Annual debt service requirements:

	<u>MTF Series 1999 Bonds</u>		
Bonds Payable:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 175,000	\$ 42,063	\$ 217,063
2006	175,000	34,450	209,450
2007	175,000	26,662	201,662
2008	200,000	18,700	218,700
2009	<u>200,000</u>	<u>9,400</u>	<u>209,400</u>
Total Bonds Payable	<u>\$ 925,000</u>	<u>\$ 131,275</u>	<u>\$ 1,056,275</u>

NOTE 9 - POST EMPLOYMENT BENEFITS

In addition to the pension benefits, the County Road Commission provides post-employment health care insurance benefits to all retired employees by a group insurance plan. The benefits are provided in accordance with articles of the union agreement, which includes the provision that upon retirement, the commission contributes \$150 to \$350 per month for health coverage per retiree based on years of service scale. The Commission's obligation ceases upon the employee attaining the minimum age for Medicare coverage. Total post employment benefit payments for fiscal year 2004 were 20,846.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Grants - The Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at September 30, 2004.

Risk Management - The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Road Commission joined together with other Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 for each insured event. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Road Commission is unable to provide an estimate of the amounts of additional assessments.

Supplementary Information

Isabella County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Revenues and Other Financing Sources For the Year Ended September 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ -	\$ 6,900	\$ 7,150	\$ 250
Federal Sources				
Surface Transportation Program	394,800	778,650	739,399	(39,251)
Other Grants	994,300	1,601,458	1,343,085	(258,373)
State Sources				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	2,737,160	3,445,796	3,525,654	79,858
Local Road	1,504,009	1,856,630	1,836,472	(20,158)
Economic Development Fund				
"D" Funds	373,952	203,900	186,927	(16,973)
Other	123,000	108,000	98,311	(9,689)
Contributions from Local Units				
Cities - Villages	-	57,789	61,067	3,278
Townships	230,815	1,363,393	1,126,460	(236,933)
Other	-	5,896	5,896	-
Charges for Services				
Salvage Sales	-	11,000	11,841	841
Other	-	800	644	(156)
Interest and Rents	-	14,150	13,231	(919)
Other Revenue				
Recoveries	-	154,600	155,080	480
Other	414,000	620,589	635,648	15,059
Loss on Equipment Disposal	-	(14,200)	(16,741)	(2,541)
Total Operating Revenue	<u>6,782,036</u>	<u>10,225,351</u>	<u>9,740,124</u>	<u>(485,227)</u>
Other Sources:				
Appropriation from Primary Government	-	107,684	110,000	2,316
Total Budget	<u>\$ 6,782,036</u>	<u>\$ 10,333,035</u>	<u>\$ 9,850,124</u>	<u>\$ (482,911)</u>

Isabella County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Expenditures – Budget and Actual For the Year Ended September 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Construction	\$ 422,500	\$ 1,076,000	\$ 983,807	\$ 92,193
Heavy Maintenance	2,140,100	2,528,102	2,288,777	239,325
Maintenance	1,131,452	1,370,323	1,365,863	4,460
Local Road				
Heavy Maintenance	410,650	2,597,651	2,171,445	426,206
Maintenance	1,831,650	2,404,800	2,578,190	(173,390)
Equipment Expense – Net	67,636	(61,402)	(91,874)	30,472
Administrative Expense – Net	554,445	484,269	456,563	27,706
Capital Outlay – Net	(150,268)	144,118	171,900	(27,782)
Debt Service				
Principal	175,000	175,000	175,000	-
Interest	54,850	47,851	47,850	1
Other	-	5,500	5,863	(363)
Total Expenditures	6,638,015	10,772,212	<u>\$ 10,153,384</u>	<u>\$ 618,828</u>
Fund Balance – October 1, 2003	<u>1,154,302</u>	<u>1,154,302</u>		
Total Budget	<u>\$ 7,792,317</u>	<u>\$ 11,926,514</u>		

Isabella County Road Commission

Analysis of Changes in Fund Balances For the Year Ended September 30, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 5,866,699	\$ 3,800,373	\$ 183,052	\$ 9,850,124
Total Expenditures	<u>5,491,787</u>	<u>4,921,508</u>	<u>(259,911)</u>	<u>10,153,384</u>
Excess of Revenues Over (Under) Expenditures	374,912	(1,121,135)	442,963	(303,260)
Optional Transfers In (Out)	<u>(374,912)</u>	<u>374,912</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	(746,223)	442,963	(303,260)
Fund Balance – October 1, 2003	676,416	-	477,886	1,154,302
Interfund Adjustment	<u>-</u>	<u>746,223</u>	<u>(746,223)</u>	<u>-</u>
Fund Balance – September 30, 2004	<u>\$ 676,416</u>	<u>\$ -</u>	<u>\$ 174,626</u>	<u>\$ 851,042</u>

Isabella County Road Commission

Analysis of Revenues For the Year Ended September 30, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits	\$ -	\$ -	\$ 7,150	\$ 7,150
Federal Sources				
Surface Transportation Program	739,399	-	-	739,399
Other	716,866	626,219	-	1,343,085
State Sources				
Michigan Transportation Fund				
Engineering	6,420	3,580	-	10,000
Primary Road	3,525,654	-	-	3,525,654
Local Road	-	1,836,472	-	1,836,472
Economic Development Fund				
Rural Primary (D)	186,927	-	-	186,927
Other	98,311	-	-	98,311
Contributions from Local Units				
Cities and Villages	61,067	-	-	61,067
Township	178,679	947,781	-	1,126,460
Other	5,896	-	-	5,896
Charges for Services				
Salvage Sales	-	-	11,841	11,841
Other	-	-	644	644
Interest and Rents	7,127	-	6,104	13,231
Other Revenue				
Miscellaneous	297,390	328,401	9,557	635,348
Loss on Disposals	(9,117)	-	(7,624)	(16,741)
Recoveries	-	-	155,380	155,380
Other Sources:				
Appropriations from Primary Government	52,080	57,920	-	110,000
Total Revenue	\$ 5,866,699	\$ 3,800,373	\$ 183,052	\$ 9,850,124

Isabella County Road Commission

Analysis of Expenditures For the Year Ended September 30, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Construction	\$ 983,807	\$ -	\$ -	\$ 983,807
Heavy Maintenance	2,359,780	-	-	2,359,780
Maintenance	1,294,860	-	-	1,294,860
Local Road				
Heavy Maintenance	-	2,171,445	-	2,171,445
Maintenance	-	2,578,190	-	2,578,190
Equipment Expense – Net	(27,406)	(59,112)	(5,356)	(91,874)
Administrative Expense – Net	225,578	230,985	-	456,563
Capital Outlay – Net	431,550	-	(259,650)	171,900
Debt Service				
Debt Principal Payments	175,000	-	-	175,000
Interest Expense	47,850	-	-	47,850
Other	768	-	5,095	5,863
Total Expenditures	<u>\$ 5,491,787</u>	<u>\$ 4,921,508</u>	<u>\$ (259,911)</u>	<u>\$ 10,153,384</u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
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DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of County Road Commissioners
Isabella County Road Commission
2261 E. Remus Road
Mt. Pleasant, Michigan 48858-9002

We have audited the financial statements of the governmental activities and major fund of the Isabella County Road Commission as of and for the year ended September 30, 2004, which collectively comprise the Isabella County Road Commission's basic financial statements and have issued our report thereon dated December 1, 2004. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Isabella County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated December 1, 2004.

Board of County Road Commissioners
Isabella County Road Commission

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Isabella County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* as listed in the accompanying Schedule of Findings as item 04-1.

This report is intended solely for the information and use of management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

December 1, 2004

NONCOMPLIANCE WITH STATE STATUTES

Expenditures in Excess of Appropriations—Budgetary Funds

Finding 04-1

Condition: Our examination of procedures used by the county road to adopt and maintain operating budgets for the county road's budgetary fund revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The Commissions 2004 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. As detailed, actual 2004 expenditures exceeded the board's approved budget allocations for some general fund activities.

During the fiscal year ended September 30, 2004, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund as listed in Note 2 of the financial statements.

Criteria: The expenditures of funds in excess of appropriations is contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended.

Recommendation: We recommend that the county road's chief administrative officer (manager) and personnel responsible for administering the activities of the various funds of the county road, develop budgetary control procedures for the General Fund which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

Management's Response—Corrective Action Plan: Management has agreed to correct the problem by monitoring the budgets more closely and performing budget amendments on a timely basis.

Isabella County Road Commission**Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2004**

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-Through Programs From:			
Michigan Department of Transportation (Note 7)			
Baseline Road from Littlefield Road	20.205	77375	626,220
Drew Road Bridge	20.205	59710	524,325
Winn Road Bridge (Cedar Creek)	20.205	51665	122,465
Pickard Road from Bamber Road	20.205	56437	375,000
Winn Road from South County Line	20.205	76579	<u>434,474</u>
Subtotal – MDOT			<u>2,082,484</u>
Total U.S. Department of Transportation			<u>2,082,484</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,082,484</u>



ANDERSON, TACKMAN & COMPANY, PLC
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REPORT TO MANAGEMENT

Members of the Board of County Road Commissioners
Isabella County Road Commission
2261 E. Remus Road
Mt. Pleasant, Michigan 48858-9002

We have audited the basic financial statements of the Isabella County Road Commission for the year ended September 30, 2004, and have issued our report thereon dated December 1, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Isabella County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Isabella County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grant agreements. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Isabella County Road Commission are described in Note 1 to the financial statements. We noted no transactions entered into by the Isabella County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, of transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Isabella County Road Commission that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the independent auditors' report. We are pleased to report that no such disagreement arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Road's financial statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Isabella County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Comments and Recommendations

Personnel Records – Two employee's Employment Eligibility Verification Form I-9 were incomplete. All Form I-9's should be completed in full prior to employment to avoid potential penalties.

Status: Some Form I-9's were incorrectly completed.

Capitalization of Infrastructure Assets – The Commission is required to develop a capitalization policy and guidelines for infrastructure assets. Additionally, an inventory and listing of infrastructure items will be needed to comply with provisions of GASB 34.

Status: Inventory has been implemented; however a capitalization policy should be adopted.

Timecard Approval – During our review of timecards, some cards did not indicate approval for the hours worked. All timecards should indicate approval from the appropriate supervisor.

Status: Corrected.

Parts Inventory – Parts inventories contain some old or obsolete parts for equipment or truck models which are not in service. Obsolete parts should be removed from inventory and sold for salvage or disposed of.

Status: Old items remain in parts inventory.


Receipts – The receipt system does not contain an original signature from the person issuing the receipt. The computer system automatically places a name on the receipt. All receipts should be signed by the person issuing the document.

Status: Corrected.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This report is intended solely for the information and use of management, the Isabella County Road Commission, state awarding agencies and pass-through entities, and should not be used by anyone other than these specified parties.


Anderson, Tackman & Company, PLC
Certified Public Accountants

December 1, 2004